

NOV 18 2005



SENT TO COUNCIL:
by City Manager's Office
Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Del D. Borgsdorf
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**SUBJECT: CITY/AGENCY RECEIVES BOND
BUYER "DEAL OF THE YEAR"
AWARD FOR FAR WEST REGION**

DATE: November 16, 2005

INFORMATION

This memorandum is to inform you that the City and the Redevelopment Agency have been selected to receive a prestigious award, one of only five such awards announced nationally by *The Bond Buyer*, the premier daily newspaper serving the municipal bond industry. We are regional winners of *The Bond Buyer's* "**Deal of the Year**" award, which in the world of municipal finance is considered one of the most prestigious awards that can be bestowed.

The award recognizes the City for an innovative approach to issuing bonds that extended our ability to finance affordable housing in San Jose. The recognition is associated with the *Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2005A-D* bond issue; however, the implications are broader than just this single bond issuance. Staff from the departments of Finance and Housing, the City Attorney's Office, and the Redevelopment Agency are to be commended for their innovative thinking that facilitated maximizing the financing capacity of the City's housing set-aside revenue stream in support of affordable housing development in the City.

BACKGROUND

In the spring of 2004, the San Jose Affordable Housing Team worked with the financial advisor for the City's housing projects and bond counsel to design and propose an innovative financing method that improves the production capacity for the City's affordable housing projects.

Typically, when California redevelopment agencies have sold housing set-aside tax allocation bonds (TABs), they have been sold in the taxable bond market rather than the tax-exempt market. The City's Affordable Housing Team worked with the state agency that determines bonding capacities for all public agencies in California (called California Debt Limit Allocation Committee or "CDLAC") to create a new program under which issuers throughout the state can receive additional state allocations for bonding capacity for the issuance of qualified housing set-aside tax allocation bonds. The Agency and City had last benefited from a CDLAC allocation in 1997 to successfully sell a smaller \$17 million tax-exempt housing set-aside tax allocation bond issue.

Through the City's efforts, CDLAC adopted revised procedures in July 2004, including the new Housing Set-Aside Program developed by the City. This new innovative program helps public agencies leverage their 20% tax increment housing set-aside funds by allowing housing set-aside tax increments to be used as security for the repayment of tax-exempt bonds. Being able to issue in the tax-exempt mode instead of the taxable mode lowers the cost of funding and increases the amount of 20% housing set aside funds available to fund affordable housing projects.

On December 20, 2004, Mayor Ron Gonzales along with State Treasurer Phil Angelides held a press conference in San Jose announcing the new CDLAC program and its benefits to the delivery of affordable housing units to San Jose and other agencies throughout the state. The Affordable Housing Team was acknowledged for its innovation in developing new ways to bring much needed funding for affordable housing throughout the State of California.

Additionally, the Affordable Housing Team's efforts in designing and implementing this new state-wide program were recognized and rewarded with the Mayor's "Pride of San José Award" at the Mayor's State of the City address in February 2005.

THE SERIES 2005 HOUSING SET-ASIDE TAX ALLOCATION BONDS (TABs)

In December 2004, the City and Agency received the first volume cap allocation for housing set-aside TABs granted under the new CDLAC program. The allocation was used to issue \$66,150,000 of Series 2005 C&D (AMT) housing set-aside subordinate TABs at tax-exempt rates to finance or refinance loans for eleven (11) affordable housing projects with an aggregate of 1,821 units set aside for low, very low or extremely low income families and seniors. These bonds were issued as subordinate, variable rate demand bonds. The low tax-exempt variable rate provided significant cash flow benefits and increased the City's overall capacity to fund more affordable housing projects. Staff estimates that the ability to issue at tax-exempt rates allowed funding of an additional 120 units compared with issuing the bonds on a taxable basis.

City and Agency staff also developed an overall financing strategy that resulted in significant savings to the City's housing program by refinancing a portion of outstanding housing set-aside debt to maximize future bonding capacity as follows:

- \$10.4 million tax-exempt Series 2005A Bonds refunded outstanding tax-exempt debt issued to fund grants.
- \$119.2 million taxable Series B Bonds refunded three series of outstanding taxable housing set-aside bonds.

Both the tax-exempt and the taxable series were sold as fixed rate, senior lien bonds. The refunding portion of these series produced a net present value savings of \$10.4 million for affordable housing projects.

CONCLUSION

The Bond Buyer awarded San José the “**Deal of the Year**” award for the Far West Region because of the City’s inaugural use of a new program in conjunction with the Agency’s Series 2005 Housing Set-Aside TABs issue. Additionally, *The Bond Buyer* noted the following attributes in selecting San José for this distinguished award:

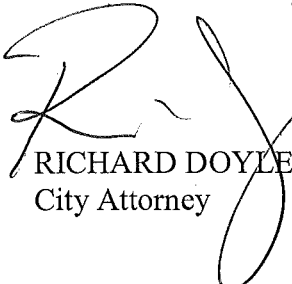
- The City was forward-thinking and innovative in developing a municipal financing model, in cooperation with CDLAC, to permit tax-exempt financing for projects which previously could only be financed with taxable debt.
- The financing materially increased the City’s overall capacity to fund more affordable housing in the future.
- This new CDLAC program, pioneered by San José’s Affordable Housing Team is now a model, available to other housing set-aside issuers throughout California.
- The Agency and City staff structured the 2005 Housing Set-Aside TABs by leveraging the additional tax exempt bond allocation San José received with an innovative, multi-layered approach which resulted in maximizing the financing capacity of the City’s housing set-aside revenue stream in support of future affordable housing development in the City.

The Bond Buyer started its “Deal of the Year” awards program in 2002 to honor innovation in the municipal finance market. The awards are presented to one issuer in each of five geographic regions for transactions that closed between October 1 and September 30 of each year. This year’s winners, chosen by *The Bond Buyer*’s bureau chiefs and editors, come from a pool of more than 60 nominations. *The Bond Buyer* will be hosting an awards ceremony on December 6, 2005 to announce and recognize the winner of the overall “2005 Deal of the Year Award” to be selected from among the five regional winners. Staff will be attending the awards event to receive the regional award.

COORDINATION

This report was prepared by the Finance Department in coordination with the Housing Department, City Attorney’s Office and Redevelopment Agency.


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